CBIS derives about one quarter of its revenues from professional services and consulting (P&C) projects. While these projects are, by themselves, one-time in nature, management has indicated they are fairly predictable because they often involve routine systems development work (such as the addition or change of a pricing plan) for current data processing clients. We expect P&C revenue growth to be in line with, although more lumpy than, the growth in data processing revenues.

International and License revenues make up the remaining 15% of revenues. The primary components of these revenues are sales of CBIS's cable billing system in the U.S. and international license sales of its billing software for the cable, wireline and wireless markets (CBIS does not currently offer any service bureau solutions outside North America). We expect revenue growth from these areas combined to lag the other categories (less than 10%) in the near term, as CBIS continues to focus on its core wireless business in the U.S., but could provide the potential for significant growth over time.

We expect core operating margins to continue to increase over the next few years as CBIS benefits from increased scale efficiencies in its data processing business. Reported operating margins will, however, be under some pressure in 1998 as CBIS expects to spend an incremental $10 million on Year 2000 fixes. Therefore, we expect 1998 operating income (after Year 2000 costs) to grow an understated 21% to $127 million. In 1999, we expect the growth in operating income to be an overstated 29% as Year 2000 costs decline by about $9 million. Before Year 2000 expenditures, we expect CBIS's operating income to increase 28% in 1998 to $146 million and 19% in 1999 to $173 million.

MATRIXX MARKETING, INC. - TREND TOWARD OUTSOURCING AND CLIENTS' NEED TO BE MORE COMPETITIVE DRIVES GROWTH

MATRIXX Marketing (25% of estimated 1997 revenues, 14% of estimated operating income) is one of the largest third-party providers of outsourced teleservices in the United States (see Figure 5). It provides a full range of customer service, sales support and teleservices solutions to major corporations. Services include traditional inbound and outbound services, customer service, business-to-business marketing, technical help desk, and interactive voice response (IVR)/Internet solutions.

Figure 5. Comparison of Publicly Traded Third-Party Teleservices Companies (Dollars in Millions)

Company	Ticker	Revenues[a]
SITEL Corporation	SWW	$448.6
MATRIXX (sub. of Cincinnati Bell Inc.)	**CSN**	**443.7**
West Teleservices Corporation	WTSC	376.5
APAC Teleservices, Inc.	APAC	349.6
Snyder Communications	SNC	273.1
TeleTech Holdings, Inc.	TTEC	248.7
TeleSpectrum Worldwide Inc.	TLSP	202.0
Precision Response Corporation	PRRC	140.1
ICT Group Inc.	ICTG	84.8

[a] LTM ended September 1997

Source: Company Reports and Salomon Brothers Inc estimates.

Direct Beneficiary of the Trend Toward Outsourcing

According to a Strategic Telemedia study, the market for outsourced teleservices was about $6 billion in 1995, while the in-house portion of the market was estimated at about $75 billion. The overall market (outsourced and in-house combined) is likely growing in the single digits as consumers demand more convenient access to more information, and the outsourced teleservices market is likely growing significantly faster as large corporations are outsourcing an increasing percentage of their telephone-based marketing and customer service activities.

Companies have historically maintained these customer service and marketing functions in-house because they believed that a direct relationship with their customers was too critical to outsource. However, as these functions have grown in both size and complexity, it has become increasingly more difficult for companies to provide high-quality customer support and sales functions in-house without diverting significant resources away from their core businesses. Furthermore, third-party teleservices companies such as MATRIXX have made the outsourcing decision even more attractive by transforming the industry from predominately a single-facility, low-technology environment to one dominated by large, technology-driven, multi-location, high volume call centers which can often provide clients with a competitive advantage.

Third-party teleservices companies offer clients scale advantages, that would often be difficult for them to achieve on their own, by spreading technological investments over a larger base of users and by better matching available capacity to fluctuating demand. For example, when a client runs a television advertisement with an 800 number to take orders, it will often receive a rush of calls immediately following the advertisement and then very few calls again until the advertisement is run again. For the client to handle these services in-house it would have to have a call center with enough capacity and the proper staffing to handle the large influx of calls when the advertisement runs, but would then have period of dead time until the advertisement runs again. By outsourcing this function to a third-party teleservices firm, the client is able to avoid these capacity and staffing issues. We expect MATRIXX to continue to benefit from the trend toward outsourcing as companies increasingly strive to focus limited resources on their core business, reduce costs and increase operational efficiency.

Focused Strategy Provides for Long Term Growth

Teleservices is an extremely competitive, highly fragmented industry with many of the participants providing a limited number of services. MATRIXX attempts to set itself apart from its competitors by offering a full range of services and developing long term, strategic outsourcing relationships with large clients. By developing long-term relationships, MATRIXX believes it can continually increase the amount of business that it provides to that client, thus becoming a more integral part of that client's marketing and customer care strategy.

A key element of MATRIXX's strategy is to constantly increase the value of its services to its clients. One of the best ways to do this is by providing services that make the client's business more effective. MATRIXX has been able to achieve this by combining its marketing expertise and analytical skills with the vast amount of data that it gathers through constant interaction with its client's customers and offering suggestions which help its clients improve everything from the effectiveness of their advertising to the products themselves. In fact, many clients have found these suggestions to be so valuable that they are in constant contact with MATRIXX, with some going so far as to have on-line, real time hook-ups to MATRIXX's databases and frequent focus

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group discussions with the teleservices personnel that handle their account. This is an invaluable source of data for its clients that becomes more effective every day. Therefore, over time, we believe this strategy should produce more stable pricing and a more consistent revenue and earnings stream.

Dedicated Services Drive Higher Margins and More Consistent Long Term Growth

MATRIXX earns roughly two-thirds of its revenues from providing dedicated inbound and outbound teleservices to its clients (with roughly half of MATRIXX's total revenues coming from dedicated inbound services). In these situations, a team of MATRIXX's employees is dedicated solely to that client's account and are trained to become, in essence, that client's employees. These are typically longer term projects which provide higher margins and a more steady source of revenues than the more traditional inbound and outbound services. Examples of dedicated inbound services include customer service representatives and help desk functions. Dedicated outbound services typically address a segment of the client's target market where it is not generally cost effective for a personal sales call and is often a business-to-business marketing situation. As an example, Procter and Gamble uses MATRIXX's services to market its products to smaller wholesalers where a personal sales call cannot be justified, but the relationship is still worth pursuing.

We expect dedicated services to be the fastest growing segment of MATRIXX's business because it is the company's main focus and it should benefit the most from new outsourcing as well as the emergence of new opportunities such as the coming deregulation of the utilities marketplace. Growth can, however, be lumpy because sales cycles are long (MATRIXX has to convince the company to outsource a function that they typically have not in the past) and MATRIXX is dependent upon that client's marketing and customer service needs. So for instance, when one of its clients is in a high growth phase, MATRIXX will typically benefit, but the reverse is also true which can create tough compares.

Traditional teleservices account for the remaining one-third of revenues. With these services, the MATRIXX employee can provide services for several different clients at the same time and does not require the same level of client specific knowledge as dedicated services do. Accordingly, margins for these services are typically below those provided under dedicated services. Traditional inbound services account for roughly 20% of revenues and include services such as order taking. Traditional outbound services (basic cold calling from a lead lists) account for about 10-15% of revenues and are typically the most commoditized of the teleservices.

MATRIXX's revenues in the third quarter of 1997 grew only 8% and operating income was down by nearly 50% as two of its largest traditional clients, AT&T and American Express, cut back on their use of third-party teleservices. This caused a decline of more than 30% in MATRIXX's traditional revenues and significantly lower margins. Strong growth (more than 30%) in the dedicated segment (roughly two-thirds of revenues) offset the decline in Traditional's revenues, but was unable to fully offset the impact on the operating income. While year over year revenue growth will likely still be under pressure in the fourth quarter, the operating margin should improve relative to the third quarter as MATRIXX has taken steps to cut its costs to match the lower than originally expected level of revenues. In fact, management indicated that margins improved each month during the third quarter.

In 1998, we expect revenues to grow 22% to $544 million, driven by continued strong growth in the dedicated segment and a recovery within the traditional segment. We estimate that operating income will grow about 30% despite approximately $5 million in incremental Year 2000 expenditures as MATRIXX benefits from an expected fourth-quarter 1997 restructuring charge (in the $35 million range) which aims to save $10 million in annual expenses once the plan is fully implemented (which MATRIXX hopes to have done by the end of 1998). We estimate 1999 revenue growth at about 15% with operating income up about 25% to $74 million. We expect the operating margin to increase from 10.9% in 1998 to 11.8% in 1999, aided by the 1997 restructuring charge and a decrease in Year 2000 expenditures.

COMMUNICATIONS SERVICES — COMPETITION LOOMS BUT POSITIVE EARNINGS CONTINUE THROUGH OUR FORECAST

The Communications Services segment is comprised of Cincinnati Bell Telephone (CBT), Cincinnati Bell Long Distance (CBLD), Cincinnati Bell Directory (CBD), and Cincinnati Bell Supply (CBS) with roughly 80% of the segment's revenues from CBT. CBT is the 14th largest local service telecom company in the U.S. based on access line in service at the end of 1996, providing local service, network access and toll telephone services to business and residential customers in the Greater Cincinnati area — the Cincinnati metropolitan area including parts of southwestern Ohio, six counties in northern Kentucky and parts of two counties in southeastern Indiana. We estimate that the Communications Services segment will account for about 47% of consolidated revenues and 54% of operating income at the end of 1997.

We believe CBT has been a solid performing telco, growing its access lines at a greater rate than the average for the Bells over the last three quarters, improving operating margins 30 basis points during the last quarter despite mandated and Year 2000 costs, and maintaining low access charges making its revenue streams less vulnerable to Federally mandated Access Reform. CBT also has opportunities to increase penetration of its additional lines and some high-margin vertical services as its penetration rate of these features are below the average of the Bells. Furthermore, CBT has a broad service offering which includes local, Internet and long distance and CBLD competes out of region in six adjoining states. However, though competition has been slow to come to Cincinnati and while Cincinnati will not be a city that all CLECs enter, competition is expected to begin this quarter with Time Warner and MCI entering the market to compete for business customers. We believe CBT will feel the effects of a competitive market — loss of market share, pricing pressure and increased SG&A costs. **We believe that while the Communications Services segment has benefited from good fundamentals, competition in its area which is expected to begin this quarter and become more significant in the next few years will no doubt impact the growth potential of CBT and thus the Communications Services segment.**

Market shar be tempered Cincinnati m factors thou not immune loss

Competition Beginning This Quarter In Cincinnati

As mandated by the Telecommunications Act of 1996, incumbent local exchange carriers (ILECs) including CBT, and the RBOCs are required to "open up" their networks to competition. This process entails allowing new competitors — the so-called competitive local exchange carriers (CLECs) — to interconnect to the ILECs' network and to have access to operation support systems as well as providing local number portability. These network requirements will add incremental costs (which CBT calls "mandated costs") to the ILECs.

For the competitors, market entry may either be on a facilities basis where they build their own network or as a reseller of the ILECs services. One of the considerations for this decision is the regulatory environment and the wholesale discounts available to resellers. The wholesale discount rate to the ILEC's retail cost which is determined in each interconnection agreement or by the state public utility commission may not be large enough to justify a resale strategy given customer acquisition costs. Therefore, most CLECs plan to build their own networks where they believe it is economic to do so (i.e., they believe they will gain enough market share to justify its investment).

Though CBT is opening its markets to competition, competition in Cincinnati is only expected to begin this quarter. In many larger markets competition has already started. Probably the most compelling reason was that there are more lucrative markets than Cincinnati for the CLECs to enter. The typical CLEC strategy is to build its own network in the top MSAs and target business customers. Given that there are dozens of markets bigger than Cincinnati, many with larger concentrations of business customers, coupled with the large cost of building out a network, CLECs will enter these larger markets first in order to maximize their return on investment.

However, competition in Cincinnati will begin in this quarter with both Time Warner and MCI who have announced plans to compete in CBT's territory for business customers. Currently, ICG is the only other company that has both certification as a CLEC in CBT's territory and which has an interconnection agreement with CBT. Nine others including Intermedia are certified as a CLEC in CBT's territory. BellSouth, Ameritech, Sprint have requested interconnection though none have final agreements while some of the wireless carriers including Sprint and AT&T have interconnection agreements. Our current estimates for cumulative market share loss based on access lines in 1998 and 1999 is 3.0% and 7.5% respectively of business customers and 0.7% and 1.0% respectively of residential customers. For lines lost to competitors, CBT will likely get revenue from unbundled loops (to gain access to the "last mile" to the customer's home which is generally a costly build for a CLEC) or unbundled network elements and from terminating competitors calls to CBT's customers. Therefore, the loss of a line does not mean a loss of all revenues generated from that line though it is roughly an 80% loss in revenue.

Market share loss may be tempered by Cincinnati market factors though CBT is *not immune to share loss*

If competition has been slow to come it may be because with a wholesale discount rate of 10.85% in Ohio which comprises 80% of CBT's access lines, it is difficult to compete via a resale strategy given customer acquisition costs and the alternative — building out your own network — may not be attractive given the capital necessary as well as the customer take rate needed to break-even on the investment. Though some companies are appealing the Public Utilities Commission of Ohio's (PUCO's) ruling for the discount rate, we do not believe that the discount rate is the only reason why competitors may choose other markets to enter.

In fact, in a study conducted by *Telephony*, a trade magazine, Cincinnati was rated only the 51st most attractive market out of the top 100 MSAs for new competitors to enter. The competitive ranking encompassed among other factors service quality, prices, telecom needs, business activity (number of business located in the area), and regulatory environment. Cincinnati ranked low in its business activity with only six locally headquartered Fortune 500 companies in its region. In fact, CBT's customer mix is 68.6% residential and 31.4% business at the end of the third quarter. In service quality, CBT ranked the second highest, averaging 1.18 trouble reports per 100 access lines per month versus 2.13 on average for the RBOCs.

In addition, given its position in the community and its reputation for quality, CBT is regarded as the "home town" carrier that has satisfied the needs of its customers and today offers a broad array of services including long distance, Internet and data transport. CBT's region is relatively small with approximately 98% of CBT's network access lines in one local calling area. CBT's small region and powerful connections with the community has enabled the company to build a strong local presence. In fact, Cincinnati Bell is the fifth largest employer in the area. Given CBT's presence in the Greater Cincinnati area, we believe competitors may find some difficulty in convincing customers to switch carriers, though, we do not expect CBT to be immune to market share loss.

Good Fundamentals But Competition Will Affect Growth Rates at CBT

CBT has been a solid telco which has grown its access lines, one of the industry's main drivers, faster than that of the Regional Bell Operating Companies (RBOCs or Bells) on average for the past three quarters. We believe that given the low penetration of additional lines (which has propelled the industry's line growth) at CBT relative to the Bells, CBT will be able to sustain line growth in the low 4% range for the next few quarters while the average for the Bells is at 4.1% growth at the end of the third quarter and is on a declining growth trend. However, as competition in CBT's region (which is expected to begin this quarter) intensifies, line growth will be negatively affected such that by the end of 1998, we estimate that line growth will be 3.2% and continue to decline.

Furthermore, though CBT's 4%-5% topline growth is average for the industry and while it has improved its operating margins in the third quarter by 30 basis points over last year despite mandated and Year 2000 costs, we believe topline growth and operating margins will be negatively impacted by competition. We believe that CBT's on-going cost improvements help temper the impact on operating margin from mandated and Year 2000 costs which ramp up from the third quarter levels and increased SG&A costs as competition heats up.

Line growth above the Bells' on average though expected to decline

Line growth for the third quarter of 1997 was a strong 4.6% or 50 basis points greater than the average growth rate for the RBOCs (See Figure 6). Only BellSouth and Southwestern Bell posted greater growth rates than CBT during the last three quarters. CBT's 10% penetration of second or additional lines to a customer's home for such uses as access to the Internet is low relative to the RBOCs and has accounted for some of this growth. With average additional penetration for the Bells of 19%, we believe CBT will continue to benefit from its low additional line penetration and sustain line growth in the 4% range for the next few quarters, though we expect this level to decline as competition in the region intensifies. Currently, we estimate that CBT has 62,000 residential additional lines and 620,000 residential primary lines. CBT ended the third quarter with 682,000 residential lines and 312,000 business lines for a total of 994,000 lines in service.

Figure 6. CBT Line Growth Versus the RBOCs

Company	3Q Total Access Lines (000s)	4Q'96	1Q'97	2Q'97	3Q'97
Cincinnati Bell	**994**	**3.6%**	**4.4%**	**4.8%**	**4.6%**
RBOCs					
Ameritech	20,204	3.4%	3.2%	3.3	3.3
Bell Atlantic	39,377	3.6	3.6	3.7	3.7
BellSouth	22,968	4.7	4.8	4.6	4.7
Pacific Bell	16,594	4.1	3.8	3.4	3.6
SWBT	15,556	5.1	5.1	4.9	5.1
US WEST Communications[a]	15,829	5.0	4.6	4.6	4.3
Average RBOCs		**4.3%**	**4.2%**	**4.1%**	**4.1%**

[a] Growth rates are normalized for exchange sales.
Source: Company reports.

Low penetration of vertical services yields high margin incremental revenue opportunity and will offset some pricing pressures

Representing an opportunity for high-margin incremental revenue as penetration levels increase, today CBT's penetration of some of its enhanced services including Caller ID and Voice Mail are below the average of the RBOCs as CBT did not focus on selling these features until last year. In fact, when CBT focused on selling Caller ID last year penetration levels nearly doubled after a year. At the end of the third quarter Call Waiting penetration was 50%, Caller ID was 18% or 700 basis points lower than the average RBOC levels, and Voice Mail penetration was only 9% versus 14% on average for the RBOCs (See Figure 7).

Figure 7. CBT Enhanced Services Penetration Levels Versus The RBOCs

Company	Additional lines	Call Waiting	Caller ID	Voice Mail
Cincinnati Bell	**10%**	**50%**	**18%**	**9%**
RBOCs				
Ameritech [a]	26%	NA	NA	NA
Bell Atlantic	19	42%	19%	10%
BellSouth	14	56	28	NA
Pacific Bell	28	NA	3	18
SWBT	16	NA	45	12
US WEST Communications	13	39	28	19
Average RBOCs	**19%**	**46%**	**25%**	**14%**

[a] Estimated additional line penetration. NA. Not available.
Source: Company reports and Salomon Brothers Estimates.

CBT's network is one of the most modern enabling it to provide enhanced switch-based CLASS (Custom Local Area Signaling Services) services such as Caller ID and Call Waiting to its customers. In fact of its network access lines 91% of are served by digital switches, 100% have ISDN availability and 100% have Signaling System 7 capability, which supports CLASS services. In addition, CBT's network includes SONET rings covering the key areas for redundant capabilities and 1,300 miles of fiber optic cable providing for greater capacity, higher transmission rates, greater bandwidth and operating more economically than traditional copper wire cable.

Revenue and margins will likely be negatively impacted by competition and federally mandated access reform

Financially, CBT has been able to expand its operating margins such that in the third quarter despite $6 million in mandated and Year 2000 costs, it was able to improve margins by 30 basis points over last year's levels. We believe that CBT's on-going cost improvements will help temper the impact on operating margin from mandated and Year 2000 costs which ramp up from the third quarter levels and increased SG&A costs as competition intensifies.

In addition, CBT has made an effort to reduce its exposure to revenue reduction imposed by access charge reforms. With one of the lowest per minute access rates in the country of $0.018 CBT's revenue stream is less vulnerable than the Bells, whose rates are currently above $0.020 per minute, to FCC mandated reductions in access charges. In May 1997 the FCC came out with its Access Reform Order as required by the Telecom Act of 1996. Access charges include the per minute charges that interexchange carriers (IXCs) such as AT&T, MCI and Sprint pay the local carriers for use of their network on both originating and terminating calls/access. These charges are expected to be on average $0.012 for originating and terminating access by the year 2000. These reductions in per minute access charges are partially offset by an increase in the monthly per line access fees that IXCs pay to the local carriers.

CBT's Broad Service Offering Includes Long Distance, Internet and Data Transport

Increasingly, customers seek simplicity including one stop shopping for its telephony needs. Today, CBT can provide bundled local and long distance services as well as Internet and data capabilities. With the Internet and corporate local area networks (LANs) and wide area networks (WANs) becoming increasingly important for business and/or residential customers, CBT has been able to respond to this demand and provide such capabilities.

Long distance Given that it was not part of the original Bell system that was dismantled in 1984, CBT can offer long distance services to its customers today. On the other hand, the regional Bells are only permitted to offer long distance once they meet the so-called 14-point checklist as mandated by the Telecom Act of 1996. So far no Bell has been able to convince the FCC that it meets the criteria to offer long distance and thus independent companies such as CBT have an advantage over the Bells. CBT through its relationship with AT&T has marketed AT&T's long distance service to its customers in-region for over 100 years.

Internet In 1996 CBT introduced FUSE, an Internet access service for its residential customers and small business customers and ended the third quarter of 1997 with 14,000 customers. CBT was the second service provider to introduce Internet services in the Greater Cincinnati area though today they are the top ISP in Cincinnati.

Data With the growing demand for high-speed bandwidth consuming capabilities such as LANs, WANs and video conferencing, CBT responded by offering high-capacity LAN interconnection services and ISDN services in 1996. Today CBT has expanded on the data initiative begun last year and additionally, provides custom data networks and services for various customers including the University of Cincinnati for which CBT is installing and managing its data network campus-wide. With its SONET rings, which use laser-generated light to transmit voice, data and video in a digital format through ultra-thin strands of glass, CBT is able to provide high capacity services with high rates of reliability. Revenues from this segment is in the mid-single digit million dollar range and is expected to nearly double next year.

Wireless/PCS Cincinnati Bell's 45% share in a cellular partnership with Ameritech Mobile Systems covers roughly 5 million pops in the Greater Cincinnati, Dayton and Columbus areas. However, CBT has a minority interest in the partnership and thus does not have control over the management or the brand name of the partnership. Income from the partnership (which is included in other income) was $11.6 million in 1996 and for the first nine months of 1997 totaled $11.2 million while its investment as of September 30, 1997 was roughly $59.6 million.

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CBI purchased a 10 MHz PCS license for the Cincinnati BTA covering 2.1 million pops for $9.6 million or roughly $5 per pop. Currently, CBI plans to have a wireless offering though it is unclear what they will do with its PCS license. CBI's options are to 1) resell PCS services or 2) build out a network or 3) form a partnership with another PCS owner. Although currently the most likely plan is to partner with another carrier it may be mid-next year before any firm plans are set. Currently, Cincinnati Bell's cellular partnership with Ameritech has sued to prevent CBT to provide PCS services and require Cincinnati Bell to withdraw from the partnership. Cincinnati Bell believes that none of its actions conflict with its partnership interest and that it continues to be a limited partner in good standing in the partnership. The court has ruled in favor of Cincinnati Bell but Ameritech has appealed this decision.

CBLD Competes Out of Region

Through its CBLD division, Cincinnati Bell markets its services out-of-region today in six adjoining states, leveraging Cincinnati Bell's reputation for quality. CBLD provides integrated solutions with a focus on its small and medium sized businesses (business with 2-20 lines). These customized solutions often include advanced data services, fax and voice mail, long distance telecom services and products as well as paging services to customers. Revenues have been growing in the low double digit range with approximately $70 million expected this year and with low double digit operating margins.

Core Earnings Growth In Communications Expected To Slow But Remain Positive

We expect the Communications segment revenues to grow 6.8% in 1997 to $832.7 million and 5.4% in 1998 to $877.5 million with EBITDA margins of 35.7% in 1997 and 34.0% in 1998 with good fundamentals in each of the Communications segments. We expect operating income of $174.2 million (+9.5%) in 1997, declining to $171.8 million (-1.4%) in 1998 due primarily to mandated and Year 2000 costs. Margins will be negatively impacted in 1997-1999 by mandated and Year 2000 costs with the bulk of costs negatively impacting 1998 margins. Excluding these costs, our operating income estimates are $186.7 million (+17.4%) in 1997 and $199.8 million (+7.0%) in 1998. During 1997, core operating margins (excluding mandated and Year 2000 costs) for the segment have improved from 20.4% for the year ended 1996 to 22.4% in 1997 as a result of the company's cost cutting efforts. In 1999 we expect a decline in revenue to $912.2 million (+3.9%) as a result of competition.

At CBT which represents roughly 80% of Communications Services revenues we are forecasting declining line growth due to competition with growth rates of 4.5% and 3.2% exiting 1997 and 1998 respectively which will impact revenue growth. We expect operating revenue of $666.8 million (+2.5%) for 1997 and $693.3 million (+4.0%) in 1998 due primarily to line growth and increased penetration of enhanced services. (At CBT a shift in revenues from local to other communications services as certain revenue streams became deregulated has caused local revenue growth and CBT revenue growth to be depressed. If the prior periods were restated to adjust for the shift in revenues, revenue growth in 1997 would have been 1-2 percentage points greater.) In 1999 we expect revenue of $712.9 million (+2.8%) as competition heats up and line growth dips below 3%. We believe minute of use volume growth will continue in the high single digit range though per minute access charges are expected to decline. This coupled with special access revenue (which represents roughly one-third of network access revenues) growth should enable CBT to grow network access in the mid-single digit range.

Mandated and Year 2000 costs which began in the first quarter are expected to accelerate in 1998. The Telecom Act mandated that the incumbent LECs open up their networks for competition. Included in this process are interconnection and local number portability (LNP) costs. Currently there is no mechanism in place for the recovery of mandated costs. Local number portability allows a customer to retain their telephone number even if they change carriers. We estimate such mandated costs to total $9.5 million in 1997 with $2.8 million in expenses posted during third quarter and the remaining $4.5 million expected in the current quarter. We expect these costs to be completed in 1998 when we estimate total expenses will be roughly $17.5 million with most of the costs incurred in the first half. Year 2000 costs are expected to be roughly $3 million in 1997 and $10.5 million in 1998 for Communications Services.

CUSTOM

CBT expects to come off of SFAS 71 regulation for "Accounting for the Effects of Certain Types of Regulation," during either the current quarter or the first quarter of 1998 which would include a write-down of assets and effectively reduce its depreciation expense. The estimated extraordinary non-cash charge could be in the range of $320 million. This would include the elimination of the embedded regulatory assets resulting from the under-depreciation of plant assets of approximately $300 million. Therefore, beginning in the first quarter of 1998 we have reduced our depreciation expense.

The other segments — CBLD, CBD and CBS — are expected to continue at their current growth rates. We estimate CBLD and CBD revenues will be roughly $70 million each while CBS is expected to be in the $30 million range. Growth rates are expected to be roughly 12.5% for CBLD, 5% for CBD and 5% for CBS.

COMBINED ENTITY CREATES CROSS SALE OPPORTUNITIES, BUT SPLIT COULD ENHANCE SHAREHOLDER VALUE

Cincinnati Bell's portfolio of businesses creates some unique cross sale and learning opportunities. The greatest cross sale opportunities appear to exist between CBIS and MATRIXX. For example, most of CBIS's clients are large telecommunications companies which also are significant users of teleservices. The overlap in customer bases and the opportunity to offer one stop shopping offers some competitive advantage.

CBIS's and MATRIXX's work for CBT has provided each of them with a set of skills and experiences which they can market to outside customers. A current example is MATRIXX's work with CBT's FUSE Internet access unit. MATRIXX has established a help desk to support FUSE and plans to leverage this experience into a service offering for other Internet service providers.

Synergies aside, there has been speculation in the past that CSN could be split up. Management's stance appears to be that it continuously evaluates all possibilities that could enhance shareholder value and that it will split the company if it believes it will create long term value. Management has, however, indicated that in order to enhance shareholder value via a split, it believes the transaction needs to be tax-free.

We believe a split makes financial sense as the highly regulated, slower growth phone company makes it more difficult to see the strong growth prospects within both CBIS and MATRIXX, thus trapping some inherit value. The consolidated company could also be narrowing CBIS's and

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MATRIXX's target markets as some potential clients in the telecommunications market may be weary of outsourcing critical functions such as billing and customer service to an entity that they view as a potential competitor (i.e., CBT). Furthermore, we believe CSN's customer care businesses could benefit from a split as it would likely give both companies higher multiple stocks which could be used for future acquisitions and to raise capital more efficiently. A split may also make CBT more attractive as a potential acquisition target. Long distance and cable companies are eager to enter the local telephone market and CBT dominates the market in Cincinnati for telephone services.

CUSTOMER CARE BUSINESSES DRIVE CONTINUED STRONG GROWTH

We expect Cincinnati Bell's consolidated EPS to be up 20% in 1997 to $1.47 on total revenue growth of about 11%. We expect the overall operating margin to improve to 18.6% from 17.9% in 1996 as strong operating income growth at CBIS (+34%) offsets a below trend year at MATRIXX (flat) and roughly 10% growth in Communications Services. Year 2000 and mandated telecom changes are expected to have a significant impact on reported margins as CSN estimates that it will spend an incremental $22 million to address these issues during the year. Excluding these costs, we estimate EPS would be up about 28% to $1.57.

In 1998, we expect EPS of $1.60 (+9%). Revenues are forecasted to be up 13% to $2.0 billion with an operating margin of 18.1%. Continued strong operating income growth at CBIS (+21%) and a recovery at MATRIXX (+30%) are expected to be offset by a slight decline in operating income growth within Communications Services. An incremental $15.5 million in Year 2000 and mandated telecom costs within the segment are expected to offset core operating income growth within Communications Services of about 7%. Excluding Year 2000 expenses in all divisions as well as the mandated telecom costs, we estimate that EPS would be about $1.84 (+17%).

We estimate EPS will grow 22% in 1999 to $1.95 on $2.2 billion (+11%) in revenues. The reported operating margin is expected to improve significantly (from 18.1% to 19.9%), predominately due to a $30+ million decline in Year 2000 and mandated telecom costs. Excluding these costs from both years, we estimate that EPS would be up 11% to $2.04.

Please note, our estimates exclude $21 million in pretax gains in the first and second quarters of 1997 related to CBT's restructuring in 1995. Our estimates also exclude an expected one-time, non cash charge of approximately $320 million, pretax in either the fourth quarter of 1997 or the first quarter of 1998, related to a change in accounting methodology (that is, to stop using SFAS 71) at the phone company. If CBT decides to wait until the first quarter of 1998 to change its accounting methodology, it will still likely be forced to take a non-cash charge (though significantly smaller) in the fourth quarter to re-adjust the value of the phone company's assets under its current method of accounting. We also exclude an expected $35 million, fourth quarter, 1997 restructuring charge at MATRIXX.

VALUATION AND INVESTMENT CONCLUSION

We believe the stock offers the potential for significant price appreciation over the next 12-18 months.

We believe CSN offers value. The stock is currently selling at only a slight premium to other local exchange carriers on a P/E basis despite earning an estimated 46% of its expected 1997 operating income from its significantly faster growth, higher multiple customer care businesses (see Figure 8). Furthermore, based on our sum of the parts analysis, we believe the stock is trading below its current break-up value and that it offers the potential for significant price appreciation over the next 12-18 months.

Figure 8. Cincinnati Bell Inc. — Valuation Summary

	Current Price To:			Estimated Growth	P/E To Growth
	CY96	CY97E	CY98E	1998/1997	1997
Cincinnati Bell Inc.	**22.7x**	**18.9x**	**17.3x**	**9%**	**2.13x**
Local Exchange Carriers - Average	**18.5x**	**18.4x**	**17.1x**	**7%**	**2.91x**
Cincinnati Bell Premium (Discount) to Average	23%	2%	1%		(27)%

[a]Growth = 17% before Year 2000 and mandated telecom costs and P/E to growth is 1.09x, a 62% discount to the average. E Salomon Brothers Inc estimate.
Sources: First Call and Salomon Brothers Inc.

Our methodology for valuing CSN was to split the company into its three components, value each on their respective 1998 earnings, and back out the net debt from the total. This analysis resulted in a fair value of about $30 per share today (7% above today's price). Using the same methodology on our 1999 estimates, we arrive at a 12-18 month break-up value of $36, providing investors with potential upside of 30% (see Figure 9).

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Figure 9. Cincinnati Bell Inc. — Sum of the Parts Analysis (Dollars in Millions)

Business Unit	1998E	1999E
Communications Services & Other		
EBITDA	$298.1	$329.8
Target Multiple	5.3x	5.3x
Estimated Firm Value	$1,579.8	$1,747.7
Plus: Estimated Value of Cellular Partnership	$270.0	$270.0
Plus: Estimated Value of PCS License	$9.6	$9.6
Estimated Firm Value - Communications Services	$1,859.4	$2,027.3
CBIS		
Operating Income	$126.8	$163.1
Tax Effected Operating Income	$82.4	$105.2
Target Multiple	25.0x	25.0x
Estimated Firm Value - CBIS	$2,059.9	$2,630.4
MATRIXX		
Operating Income	$59.3	$74.0
Tax Effected Operating Income	$38.6	$47.7
Target Multiple	18.0x	18.0x
Estimated Firm Value - MATRIXX	$694.2	$858.8
Estimated Firm Value of Business Segments	**$4,613.5**	**$5,516.5**
Less: Debt	$515.2	$498.9
Plus: Cash	$5.7	$5.7
Estimated Equity Value	**$4,104.1**	**$5,023.2**
Shares Outstanding	138.2	138.7
Estimated Value per Share	**$29.70**	**$36.22**
Current Price per Share (11/20/97)	$27.75	$27.75
Upside	**7.0%**	**30.5%**

E Salomon Brothers Inc estimate.
Source: Salomon Brothers Inc.

Communications Services Valuation

To value Communications Services we looked at comparable valuations of the Bells as well as the independents as a guide. We believe the closest comparables would be Southern New England Telecom (SNET) which currently is the local exchange carrier in Connecticut or US WEST Communications Group (US WEST) which does not have large cellular operations. Like CBT, SNET is a small local exchange carrier with a concentrated geographic market. It is however, currently under more competitive pressure in its markets than CBT and its earnings are actually expected to decline in 1998. Currently, both USW and SNET are trading at 5.6 times 1998 EBITDA (See Figure 10). We believe these stocks are overvalued and therefore their multiples are inflated. Therefore, we believe a more appropriate valuation for Communications Services is 5.3 times EBITDA or a 5.4% discount to where US WEST and SNET are trading. Using a 5.3 Firm Value/EBITDA multiple applied to our 1998 EBITDA estimate of $298.1 million we get a firm value for Communications Services of $1,580 million.

Figure 10. Local Exchange Carriers — Comparable Company Valuations FV/EBITDA

	Ticker	Price 11/20/97	Market Cap (mils)	Firm value	EBITDA CY 1996	EBITDA CY 1997E	EBITDA CY 1998E	FV/EBITDA CY 1996	FV/EBITDA CY 1997E	FV/EBITDA CY 1998E
Ameritech	AIT	$77.13	$42,191	$48,991	5,870	6,324	6,771	8.3x	7.7x	7.2x
Bell Atlantic	BEL	85.69	66,545	85,749	12,025	12,975	13,851	7.1	6.6	6.2
BellSouth	BLS	54.63	54,188	62,292	8,498	9,176	9,681	7.3	6.8	6.4
SBC Communications	SBC	72.19	66,052	80,927	9,945	10,378	11,213	8.1	7.8	7.2
US WEST Communications	USW	43.81	21,183	26,737	4,462	4,594	4,754	6.0	5.8	5.6
GTE[a]	GTE	47.81	45,665	63,210	9,278	NA	NA	6.8	NA	NA
SNET	SNG	44.25	2,943	4,311	738	767	777	5.8	5.6	5.6
Average								**7.1x**	**6.7x**	**6.4x**

[a]Restricted. E Salomon Brothers Inc estimate.
Source: Company Reports and Salomon Brothers Inc

To make sure we are properly valuing Communications Services we looked at different valuation metrics. With 994,000 lines in service at the end of the third quarter this amounts to a firm value per access line of $1,589 which is 31% lower than the average for the Bells, GTE and SNET (See Figure 11.) attributable to these companies' recent run up in stock prices as well as their investment in cellular and other businesses. With net debt of roughly $306 million at the end of the third quarter, the equity value for Communications Services totals $1,274 million ($1,580 million - $306 million) for 137.7 million shares or $9.25 per share. With interest expense estimated at $22.9[1] million in 1998, and applying the effective tax rate for the year to income before taxes we get net income of $96.8 million ($171.8 operating income less $22.9 interest less $52.1 taxes at 35% rate) and estimated earnings for Communications Services of $0.70. The price to earnings ratio for 1998 is 13.2 times compared with 17.1 times on average for the local exchange carriers (See Figure 12). Our valuation for Communications Services appears conservative relative to other local exchange carriers (LECs) due to the recent run up of prices as well as the other LECs investment in other businesses as previously mentioned. In addition, we did a discounted cash flow analysis and came up with a similar firm value.

Figure 11. Local Exchange Carriers — Comparable Company Valuations Dividend Yield and FV/Access Line

	Ticker	Price 11/20/97	Firm value	Dividends CY 1996	Dividends CY 1997E	Dividends CY 1998E	Dividend Yield CY 1996	Dividend Yield CY 1997E	Dividend Yield CY 1998E	Access lines (000)	FV/Line
Ameritech	AIT	$77.13	$48,991	$2.16	$2.30	$2.44	2.8%	3.0%	3.2%	20,204	$2,425
Bell Atlantic	BEL	85.69	85,749	2.88	3.02	3.08	3.4	3.5	3.6	39,377	$2,178
BellSouth	BLS	54.63	62,292	1.43	1.47	1.50	2.6	2.7	2.7	22,968	$2,712
SBC Communications	SBC	72.19	80,927	1.72	1.79	1.86	2.4	2.5	2.6	32,465	$2,493
US WEST Communications	USW	43.81	26,737	2.14	2.14	2.14	4.9	4.9	4.9	15,829	$1,689
GTE[a]	GTE	47.81	63,210	1.88	NA	NA	3.9	NA	NA	24,041	$2,629
SNET	SNG	44.25	4,311	1.76	1.76	1.76	4.0	4.0	4.0	2,257	$1,910
Average							**3.4%**	**3.4%**	**3.5%**		**$2,291**

[a]Restricted. E Salomon Brothers Inc estimate.
Source: Company Reports and Salomon Brothers Inc

1 We assumed that interest expense for Communications Services represents 60% of total interest expense, net.

Figure 12. L

Alltel Corpor
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US West Cor
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[a]AT and GTE
Sources: First

Figure 12. Local Exchange Carriers — Comparable Company Valuations

	Ticker	Price 11/20/97	CY1996	CY1997E	CY1998E	Current Price To: CY96	CY97E	CY98E	Estimated Growth 1998/1997	P/E To Growth 1997
Alltel Corporation[a]	AT	$38.19	$1.92	$2.10	$2.27	19.9x	18.2x	16.8x	8%	2.25x
Ameritech Corporation	AIT	77.13	3.83	4.20	4.50	20.1	18.4	17.1	7	2.57
Bell Atlantic	BEL	85.69	4.49	4.95	5.40	19.1	17.3	15.9	9	1.90
BellSouth Corporation	BLS	54.63	2.53	2.80	2.95	21.6	19.5	18.5	5	3.64
Frontier Corporation	FRO	23.88	1.50	0.98	1.15	15.9	24.4	20.8	17	1.40
GTE Corporation[a]	GTE	47.81	2.88	2.92	3.06	16.6	16.4	15.6	5	3.42
SBC Communications	SBC	72.19	3.49	3.65	4.05	20.7	19.8	17.8	11	1.80
Southern New England Telecom	SNG	44.25	2.94	2.92	2.90	15.1	15.2	15.3	(1)	N/M
US West Communications Group	USW	43.81	2.44	2.58	2.65	18.0	17.0	16.5	3	6.26
Telephone Companies - Average						**18.5x**	**18.4x**	**17.1x**	**7%**	**2.91x**
Telephone Companies - Median						**19.1x**	**18.2x**	**16.8x**	**7%**	**2.41x**

[a]AT and GTE estimates are from First Call. E Salomon Brothers Inc estimate.
Sources: First Call and Salomon Brothers Inc.

Wireless/PCS Valuation

We valued the cellular partnership with Ameritech on a per pops basis. With a total of 5 million pops covered in the partnership, Cincinnati Bell's 45% ownership yields 2.25 equity pops. Using a 20% discount for a non-managed property and a 20-25% discount because we do not know how well the partnership is performing (i.e. penetration levels, revenue growth, operating cash flow margins, etc.) to per pop valuations of $207 (using a 12 times FV/EBITDA multiple on a simple average of EBITDA per pop for wireless companies) we get a per pop value of $120. Using a per pop value of $120 yields a value for the cellular partnership of $270 million.

We valued the PCS license based on the purchase price for the license given the uncertainty regarding what the company will do with the license. Therefore, we value the PCS license at $9.6 million.

CBIS Valuation

For CBIS, we looked at the other publicly traded third-party billing companies as well as the computer services companies in general. Valuations in the billing segment range widely (see Figure 13) and therefore can yield very different results depending on which comparables are used. We decided to exclude both Saville Systems and LHS Group since both companies are growing significantly faster than CBIS and focus on small niches of the market. LHS and Saville are expected to grow 70% and 41%, respectively, in 1998, while the other, more mature billing companies are, on average, expected to grow in the mid-20% range. Given our expectations for underlying 20+% growth at CBIS, we believe these are the better comparables and have used a 25 multiple for CBIS's earnings. A 25 multiple is also more in line with computer services companies in general. At this multiple, CBIS would be valued at about $2.0 billion.

Figure 13. CBIS — Comparable Company Valuations

	Ticker	Price 11/20/97	CY1996	CY1997E	CY1998E	Current Price To: CY96	CY97E	CY98E	Estimated Growth 1998/1997	P/E To Growth 1997
Billing Information Concepts Corp.	BILL	$47.00	$1.19	$1.40	$1.80	39.5x	33.6x	26.1x	29%	1.18x
CSG Systems International, Inc.	CSGS	37.88	0.54	0.77	1.06	70.1	49.2	35.7	38	1.31
LHS Group Inc.	LHSG	45.38	N/A	0.43	0.73	N/A	105.5	62.2	70	1.51
Saville Systems PLC	SAVLY	31.63	0.31	0.59	0.83	103.7	53.6	38.1	41	1.32
USCS International Inc.[a]	USCS	21.06	0.64	0.92	1.00	32.9	22.9	21.1	9	2.63
Billing Companies - Average						**61.6x**	**53.0x**	**36.6x**	**37%**	**1.59x**
Billing Companies - Median						**54.8x**	**49.2x**	**35.7x**	**38%**	**1.32x**
Billing (Ex. SAVLY & LHSG) - Average						**47.5x**	**35.2x**	**27.6x**	**25%**	**1.70x**
Billing (Ex. SAVLY & LHSG) - Median						**39.5x**	**33.6x**	**26.1x**	**29%**	**1.31x**
Salomon Brothers Computer Services Index						**47.5x**	**33.2x**	**25.6x**	**28%**	**1.38x**

[a]USCS estimate is from Salomon Brothers Inc. Remaining estimates are from First Call. A Actual. E Salomon Brothers Inc estimate.
Sources: First Call and Salomon Brothers Inc.

RISKS

MATRIXX Valuation

Valuations for the teleservices companies also vary widely (see Figure 14), which we believe reflects the higher degree of uncertainty surrounding the earnings of these companies following several earnings disappointments in the third quarter, including the one at MATRIXX. We have used an 18 multiple for MATRIXX, which values it at a slight premium to the current median multiple for the teleservices group. We believe this premium is justified because of MATRIXX's leading position within the industry and its concentration on longer term strategic relationships which are more likely to produce more consistent growth over the long term. At this multiple, MATRIXX would be valued at about $694 million.

Figure 14. MATRIXX — Comparable Company Valuations

	Ticker	Price 11/20/97	CY1996	CY1997E	CY1998E	Current Price To: CY96	CY97E	CY98E	Estimated Growth 1998/1997	P/E To Growth 1997
APAC Teleservices	APAC	$14.56	$0.64	$0.46	$0.82	22.8x	31.7x	17.8x	78%	0.40x
ICT Group Incorporated	ICTG	4.38	0.13	0.22	0.32	33.7	19.9	13.7	45	0.44
Precision Response	PRRC	7.38	0.36	0.22	0.58	20.5	33.5	12.7	164	0.20
Sitel Corporation	SWW	9.88	0.30	0.30	0.49	32.9	32.9	20.2	63	0.52
Snyder Communications, Inc.	SNC	33.69	0.30	0.53	0.82	112.3	63.6	41.1	55	1.16
Sykes Enterprises	SYKE	26.13	0.33	0.56	0.80	79.2	46.7	32.7	43	1.09
Telespectrum Worldwide	TLSP	4.56	0.32	(0.09)	0.29	14.3	N/M	15.7	N/M	N/M
Teletech Holdings Inc.	TTEC	10.50	0.24	0.34	0.53	43.8	30.9	19.8	56	0.55
West Teleservices	WTSC	12.00	0.52	0.59	0.71	23.1	20.3	16.9	20	1.00
Teleservices Companies - Average						**42.5x**	**34.9x**	**21.2x**	**66%**	**0.67x**
Teleservices Companies - Median						**32.9x**	**32.3x**	**17.8x**	**55%**	**0.54x**

E Salomon Brothers Inc estimate.
Sources: First Call and Salomon Brothers Inc.

We believe the stock is worth about $30 today with potential to trade to $36 over the next 12-18 months.

In summary, while CSN's stock is up significantly over the last couple of years, we still believe it is an undervalued asset. Based on our analysis, we believe the underlying value of the stock is about $30 today with the potential to trade to $36 over the next 12-18 months.

RISKS

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RISKS — COMMUNICATIONS SERVICES

Telephone Market Competitive Entry
As mandated by the Telecom Act of 1996, incumbent local exchange carriers are required to open their networks to competitors. Many markets have competitors already competing for share. While we believe that competition, which is only starting this quarter, will impact CBT's growth rates, there may be upside to our numbers if the competitive impact is not as draconian as we are currently estimating.

Regulatory Filings
CBT has filed its "Commitment 2000" plan with the Ohio Public Utility Commission for rate rebalancing and to move from an alternative rate of return regulation environment to price caps. Rate rebalancing removes the subsidy to residential rates that is included in business rates — resulting in raising residential rates and reducing business rates. The move from rate of return regulation which authorizes the specified rate of return that a telephone company is permitted to earn to a price cap plan would incent CBT to be more efficient and earn a higher return which they can keep versus returning to the customer. A recently issued staff report showed the PUCO's continued focus on enhancing competition. Cincinnati Bell was not satisfied with the terms of the staff report and will work with the PUCO for a better result. While the terms are not final, ultimately this may result in a reduction of revenues though the outcome is uncertain.

SFAS 71 Accounting
CBT expects to come off of SFAS 71 regulation for "Accounting for the Effects of Certain Types of Regulation," during either the current quarter or the first quarter of 1998 which would include a write-down of assets and effectively reduce its depreciation expense. The estimated extraordinary non-cash charge could be in the range of $320 million. This would include the elimination of the embedded regulatory assets resulting from the under-depreciation of plant assets of approximately $300 million. Therefore, beginning in the first quarter of 1998 we have reduced our depreciation expense.

CBT's Relationship With AT&T
CBT has had a relationship with AT&T to provide the marketing and provisioning of AT&T's long distance services in the Cincinnati area for which CBT received commissions and fees for facilities reimbursement. The companies currently have a memorandum of understanding to continue to work together toward a multi-year agreement under the same terms though it is not definitive when a final agreement will be reached. This agreement only affects CBT's relationship with AT&T and does not include AT&T's agreements with CBI's other entities. CBT's revenues from this relationship with AT&T amount to roughly $35-$36 million in 1996.

RISKS — CBIS and MATRIXX

CSN's Decision Related To Its PCS License Could Result In Near-Term Dilution
In February 1997, CSN was the successful bidder for a 10mhz PCS license in the Greater Cincinnati area. While the company has not yet decided what it is going to do with the license, it does plan to have a wireless offering under its brand name. It is possible that its efforts to provide these services (either through a network buildout or a joint venture) could cause significant earnings dilution. The risk is that computer services investors will be unwilling to endure the near-term dilution while waiting for the long term benefits, which could hurt the stock's performance.

Dependence On A Limited Number Of Clients
CBIS's top 3 accounts, excluding CBT, (AT&T, 360° Communications, Ameritech) account for roughly 64% of revenues. The loss of one of these clients would likely have a material negative impact on both revenues and profits. However, all three of these clients are signed to long term contracts and switching costs for data processing clients are typically very high, making client losses unusual.

MATRIXX's top 3 accounts accounted for about 39% of its revenues for the first nine months of 1997 and about 38% of revenues in the third quarter (see Figure 15). The loss of one of these clients would likely have a material negative impact on both revenues and profits. MATRIXX is also subject to quarterly fluctuations depending on the plans of its major clients, as evidenced by AT&T's impact on the third quarter's revenue and operating income. However, we believe MATRIXX's focus on long term relationships and on selling dedicated outsourcing solutions (roughly two-thirds of revenues) provide more long term stability than is prevalent at many of its peers. Furthermore, MATRIXX's focus on signing new dedicated clients should, over time, lessen its dependence on its top clients.

Figure 15. MATRIXX's Top Clients (Estimated % of Revenues)

	3 months ended Sept. 30, 1997	9 months ended Sept. 30, 1997
DIRECTV	~23%	~20%
AT&T	~10	~14
American Express	~5	~5
Total	**38%%**	**39%**

Sources: Company Reports and Salomon Brothers Inc.

A related risk worth monitoring is the decision by MATRIXX's largest client, DIRECTV (approximately 20% of revenues), to, for the first time, give a portion of its consumer customer service business to one of MATRIXX's competitors. At the least, this could lead to slower growth from this account as MATRIXX no longer has 100% of the business, but could also potentially lead to price competition or the loss of more business. Offsetting a portion of the risk is that MATRIXX's contract, which lasts through 1999, guarantees it at least 75% of DIRECTV's customer service business. MATRIXX also has an excellent relationship with DIRECTV.

CBT currently represents about 7% of CBIS's total revenues. It is possible that, if the company were split-up, the contract would be negatively affected. Management has indicated that the contract is competitively priced and that any change would be minor.

Highly Competitive Markets Could Create Pricing Pressure Or Draw New Entrants.
While both CBIS and MATRIXX are leaders in their respective fields and should therefore have some advantage against the competition, both industries are highly competitive and continue to draw new competitors.

In the teleservices industry, barriers to entry are somewhat limited. In addition, because demand can change much faster than supply (for example AT&T's pullback in the third quarter 1997), the industry has the potential for significant price competition. However, to date, prices have held relatively stable with clients more focused on the quality of service than on getting the lowest price and MATRIXX's range of services and reputation within the industry should allow it to be less price sensitive. Nonetheless, longer term, pricing is an issue that needs to be monitored.

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We believe the billing market is less competitive than the teleservices market because the barriers to entry are much higher. Competition is also lessened as most of the large third-party billers concentrate on different markets. For example, CBIS focuses on the wireless industry where its main competition is still the in-house solution (which the company estimates still handles roughly half the subscribers) and its main third-party competition comes from a segment of Alltel Information Systems and units of large system integrators such as Andersen Consulting and American Management Systems. Nonetheless, competition among these groups is difficult and with new entrants coming into the U.S. service bureau market such as LHS Group, it is not likely to lessen.

Other Potential Risks

Other potential risks include: CBIS's dominant market share in the U.S. wireless market could impact future growth; the potential that the acquisition of clients, particularly in the financial services (for MATRIXX) and communications markets, could lead to lost business; and the risk of internalization of teleservices and billing functions by larger clients.

Figure 16. Cincinnati Bell Inc. — Annual Income Statement Model, 1995-1999E (Dollars and Shares in Millions)[a]

FY ends December 31	1995	1996A	1997E	1998E	1999E
Revenues	**$1,336.1**	**$1,573.7**	**$1,753.8**	**$1,974.1**	**$2,184.4**
Yr/Yr Change	8.8%	17.8%	11.4%	12.6%	10.7%
Cost of Services	$705.2	$850.3	$929.0	$1,034.1	$1,135.9
SG&A	243.3	268.8	290.6	324.1	370.7
Depreciation and Amortization	162.2	172.8	186.5	205.0	222.0
Operating Income (ex. Y2K/Mandated Costs)	**$225.4**	**$281.8**	**$347.8**	**$410.8**	**$455.8**
Yr/Yr Change	31.8%	25.0%	23.4%	18.1%	11.0%
Operating Margin	16.9%	17.9%	19.8%	20.8%	20.9%
Year 2000 Programming Costs	$0.0	$0.0	$12.9	$35.4	$20.5
Mandated Telecommunications Costs	$0.0	$0.0	$9.5	$17.5	$0.0
Operating Income (ex. Special/1-time Items)	**$225.4**	**$281.8**	**$325.4**	**$357.9**	**$435.3**
Yr/Yr Change	31.8%	25.0%	15.5%	10.0%	21.6%
Operating Margin	16.9%	17.9%	18.6%	18.1%	19.9%
Other Income (Expense), Net	$4.8	$12.1	$19.3	$20.0	$21.0
Interest Expense	$52.8	$36.4	$36.1	$38.1	$36.9
Pretax Income (ex. Special/1-time Items)	**$177.4**	**$257.5**	**$308.6**	**$339.9**	**$419.5**
Yr/Yr Change	43.9%	45.2%	19.8%	10.1%	23.4%
Pretax Margins	13.3%	16.4%	17.6%	17.2%	19.2%
Income Taxes	$63.2	$89.9	$106.9	$118.9	$148.9
Tax Rate	35.6%	34.9%	34.6%	35.0%	35.5%
Net Income (ex. Special/1-time Items)	**$114.2**	**$167.6**	**$201.7**	**$220.9**	**$270.5**
Yr/Yr Change	44.2%	46.8%	20.3%	9.5%	22.5%
EPS (ex. Special/1-time Items)	**$0.86**	**$1.22**	**$1.47**	**$1.60**	**$1.95**
Yr/Yr Change	42.4%	41.8%	19.9%	9.1%	22.0%
Shares Outstanding (incl. equivalents)	132.5	137.2	137.7	138.2	138.7
Memo:					
Estimated EPS (Ex. Y2K/Mandated Costs)	**$0.86**	**$1.22**	**$1.57**	**$1.84**	**$2.04**
Yr/Yr Change	42.4%	41.8%	28.3%	17.4%	11.1%
Special/1-time Items					
Special Charges (pretax)	$208.0	($27.1)	($21.0)	$0.0	$0.0
Net Income (incl. Special/1-time Items)	($32.3)	$185.0	$215.1	$220.9	$270.5
EPS (incl. Special/1-time Items)	($0.24)	$1.35	$1.56	$1.60	$1.95
Margin/Expense Analysis					
Operating Margin	16.9%	17.9%	18.6%	18.1%	19.9%
Pretax Margin	13.3%	16.4%	17.6%	17.2%	19.2%
Net Margins	8.5%	10.7%	11.5%	11.2%	12.4%
Cost of Services as % of Revenues	52.8%	54.0%	53.0%	52.4%	52.0%
SG&A as % of Revenues	18.2%	17.1%	16.6%	16.4%	17.0%
Depr and Amort. as % of Revenues	12.1%	11.0%	10.6%	10.4%	10.2%

[a] Except per share data. A Actual. E Salomon Brothers Inc estimate.
Source: Salomon Brothers Inc.

CINCINNATI BELL INC. — QUARTERLY INCOME STATEMENT

Figure 17. Cincinnati Bell Inc. — Quarterly Income Statement Model, 1996-1998E (Dollars and Shares in Millions)[a]

FY ends December 31 | 1996 10 20 30 40 | 1997E 10 20 30/A 40 | 1998E 10 20 30 40

CINCINNATI BELL INC. — QUARTERLY INCOME STATEMENT

Figure 17. Cincinnati Bell Inc. — Quarterly Income Statement Model, 1996-1998E (Dollars and Shares in Millions)[a]

	1996				1997E				1998E			
FY ends December 31	1Q	2Q	3Q	4Q	1Q	2Q	3Q/A	4Q	1Q	2Q	3Q	4Q
Revenues	**$362.1**	**$376.0**	**$403.2**	**$432.4**	**$429.5**	**$433.1**	**$433.2**	**$458.0**	**$472.6**	**$484.5**	**$495.0**	**$522.0**
Yr/Yr Change	9.1%	12.5%	23.3%	26.0%	18.6%	15.2%	7.4%	5.9%	10.0%	11.9%	14.3%	14.0%
Cost of Services	$187.9	$201.8	$216.3	$244.3	$234.3	$238.0	$218.5	$238.2	$245.7	$252.9	$259.9	$275.6
SG&A	65.2	62.8	72.2	68.7	70.8	65.3	77.9	76.6	81.5	80.5	79.1	83.1
Depreciation and Amortization	41.9	42.4	43.3	45.2	44.2	45.6	47.4	49.3	48.3	50.3	52.3	54.1
Operating Income (ex. Y2K/Mandated Costs)	**$67.1**	**$69.0**	**$71.4**	**$74.3**	**$80.2**	**$84.2**	**$89.4**	**$94.0**	**$97.0**	**$100.8**	**$103.7**	**$109.2**
Yr/Yr Change	24.0%	22.6%	25.1%	28.3%	19.5%	22.0%	25.2%	26.6%	21.0%	19.7%	16.0%	16.2%
Operating Margin	18.5%	18.4%	17.7%	17.2%	18.7%	19.4%	20.6%	20.5%	20.5%	20.8%	21.0%	20.9%
Year 2000 Programming Costs	$0.0	$0.0	$0.0	$0.0	$0.6	$1.5	$4.8	$6.0	$7.5	$8.5	$10.2	$9.2
Mandated Telecommunications Costs	$0.0	$0.0	$0.0	$0.0	$1.1	$1.1	$2.8	$4.5	$7.3	$7.3	$1.5	$1.5
Operating Income (ex. Special/1-time Items)	**$67.1**	**$69.0**	**$71.4**	**$74.3**	**$78.5**	**$81.6**	**$81.8**	**$83.5**	**$82.3**	**$85.1**	**$92.0**	**$98.5**
Yr/Yr Change	24.0%	22.6%	25.1%	28.3%	17.0%	18.3%	14.5%	12.4%	4.8%	4.3%	12.5%	18.0%
Operating Margin	18.5%	18.4%	17.7%	17.2%	18.3%	18.8%	18.9%	18.2%	17.4%	17.6%	18.6%	18.9%
Other Income (Expense), Net	$1.5	$3.0	$4.9	$2.7	$3.4	$4.9	$6.0	$5.0	$5.0	$5.0	$5.0	$5.0
Interest Expense	$9.6	$8.4	$9.6	$8.8	$8.6	$9.1	$9.1	$9.3	$9.8	$9.6	$9.4	$9.2
Pretax Income (ex. Special/1-time Items)	**$59.0**	**$63.6**	**$66.7**	**$68.2**	**$73.3**	**$77.4**	**$78.7**	**$79.2**	**$77.5**	**$80.5**	**$87.6**	**$94.3**
Yr/Yr Change	42.5%	47.6%	52.0%	39.2%	24.2%	21.7%	18.0%	16.1%	5.7%	4.0%	11.3%	19.1%
Pretax Margins	16.3%	16.9%	16.5%	15.8%	17.1%	17.9%	18.2%	17.3%	16.4%	16.6%	17.7%	18.1%
Income Taxes	$20.8	$22.3	$23.6	$23.2	$25.6	$27.1	$26.9	$27.3	$27.1	$28.2	$30.7	$33.0
Tax Rate	35.3%	35.1%	35.4%	34.0%	34.9%	35.0%	34.2%	34.5%	35.0%	35.0%	35.0%	35.0%
Net Income (ex. Special/1-time Items)	**$38.2**	**$41.3**	**$43.1**	**$45.0**	**$47.7**	**$50.3**	**$51.8**	**$51.9**	**$50.4**	**$52.3**	**$56.9**	**$61.3**
Yr/Yr Change	46.9%	53.0%	49.7%	38.9%	24.9%	21.8%	20.2%	15.3%	5.6%	4.0%	9.9%	18.2%
EPS (ex. Special/1-time Items)	**$0.29**	**$0.30**	**$0.31**	**$0.33**	**$0.35**	**$0.37**	**$0.38**	**$0.38**	**$0.37**	**$0.38**	**$0.41**	**$0.44**
Yr/Yr Change	45.1%	46.9%	44.0%	33.7%	21.4%	22.0%	20.4%	15.5%	5.3%	3.6%	9.5%	17.7%
Shares Outstanding (incl. equivalents)	133.7	137.9	138.0	138.1	137.6	137.6	137.7	137.8	138.0	138.1	138.3	138.4
Memo:												
Estimated EPS (Ex. Y2K/Mandated Costs)	**$0.29**	**$0.30**	**$0.31**	**$0.33**	**$0.35**	**$0.38**	**$0.41**	**$0.42**	**$0.43**	**$0.45**	**$0.47**	**$0.49**
Yr/Yr Change	45.1%	46.9%	44.0%	33.7%	24.1%	26.0%	31.5%	30.3%	21.9%	19.4%	13.2%	15.9%
Special/1-time Items												
Special Charges (pretax)	($5.5)	($5.5)	($5.9)	($10.2)	($15.0)	($6.0)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Net Income (incl. Special/1-time Items)	$41.7	$44.8	$46.9	$51.6	$57.2	$54.2	$51.8	$51.9	$50.4	$52.3	$56.9	$61.3
EPS (incl. Special/1-time Items)	$0.31	$0.32	$0.34	$0.37	$0.42	$0.39	$0.38	$0.38	$0.37	$0.38	$0.41	$0.44
Margin/Expense Analysis												
Operating Margin	18.5%	18.4%	17.7%	17.2%	18.3%	18.8%	18.9%	18.2%	17.4%	17.6%	18.6%	18.9%
Pretax Margin	16.3%	16.9%	16.5%	15.8%	17.1%	17.9%	18.2%	17.3%	16.4%	16.6%	17.7%	18.1%
Net Margins	10.5%	11.0%	10.7%	10.4%	11.1%	11.6%	12.0%	11.3%	10.7%	10.8%	11.5%	11.7%
Cost of Services as % of Revenues	51.9%	53.7%	53.7%	56.5%	54.6%	55.0%	50.4%	52.0%	52.0%	52.2%	52.5%	52.8%
SG&A as % of Revenues	18.0%	16.7%	17.9%	15.9%	16.5%	15.1%	18.0%	16.7%	17.2%	16.6%	16.0%	15.9%
Depr and Amort. as % of Revenues	11.6%	11.3%	10.7%	10.5%	10.3%	10.5%	10.9%	10.8%	10.2%	10.4%	10.6%	10.4%

[a]Except per share data. A Actual. E *Salomon Brothers Inc estimate.*
Source: Salomon Brothers Inc.

CINCINNATI BELL INC. — SEGMENT BREAKDOWN

Figure 18. Cincinnati Bell Inc. — Segment Breakdown, 1996-1999E (Dollars in Millions)

	1996A					1997E						
FY Ends December 31	1Q	2Q	3Q	4Q	1996A	1Q	2Q	3Q/A	4Q	1997E	1998E	1999E
Communications Services												
Total Revenues	$189.4	$195.0	$196.2	$199.2	$779.8	$199.9	$207.1	$211.0	$214.7	$832.7	$877.5	$912.2
Yr/Yr Change	N/A	N/A	N/A	N/A	N/A	5.5%	6.2%	7.5%	7.8%	6.8%	5.4%	3.9%
Operating Income (ex. charges)	$40.5	$41.2	$39.6	$37.8	$159.1	$42.1	$43.6	$45.8	$42.7	$174.2	$171.8	$198.2
Yr/Yr Change	N/A	N/A	N/A	N/A	N/A	4.0%	5.8%	15.7%	12.9%	9.5%	(1.3)%	15.4%
Operating Margin	21.4%	21.1%	20.2%	19.0%	20.4%	21.1%	21.1%	21.7%	19.9%	20.9%	19.6%	21.7%
CBIS												
Revenues	$106.9	$114.5	$125.1	$133.3	$479.8	$130.5	$134.0	$137.2	$143.2	$544.9	$626.6	$721.4
Yr/Yr Change	18.6%	21.0%	37.3%	35.9%	28.3%	22.1%	17.0%	9.7%	7.4%	13.6%	15.0%	15.1%
Operating Income (ex. charges)	$17.5	$18.8	$20.2	$22.0	$78.5	$22.7	$25.5	$28.2	$28.7	$105.1	$126.8	$163.1
Yr/Yr Change	66.7%	54.1%	83.6%	78.9%	70.7%	29.7%	35.6%	39.6%	30.4%	33.9%	20.6%	28.7%
Operating Margin	16.4%	16.4%	16.1%	16.5%	16.4%	17.4%	19.0%	20.6%	20.0%	19.3%	20.2%	22.6%
MATRIXX												
Revenues	$77.4	$80.0	$95.5	$114.3	$367.1	$115.2	$111.2	$103.0	$118.6	$448.0	$544.2	$625.8
Yr/Yr Change	9.6%	20.3%	49.9%	62.5%	35.4%	48.8%	39.0%	7.9%	3.8%	22.0%	21.5%	15.0%
Operating Income (ex. charges)	$9.6	$9.6	$12.0	$14.4	$45.7	$14.6	$12.6	$6.2	$12.2	$45.6	$59.3	$74.0
Yr/Yr Change	20.0%	9.7%	58.9%	81.6%	41.5%	52.1%	30.8%	(48.5)%	(15.6)%	(0.2)%	30.2%	24.7%
Operating Margin	12.4%	12.0%	12.6%	12.6%	12.4%	12.7%	11.3%	6.0%	10.3%	10.2%	10.9%	11.8%
Corporate												
Total Intercompany Revenues	$11.6	$13.5	$13.6	$14.3	$53.0	$16.1	$19.2	$18.0	$18.5	$71.8	$74.2	$75.0
Operating Income (ex. charges)	($0.5)	($0.6)	($0.3)	($0.1)	($1.5)	($0.9)	($0.1)	$1.6	$0.0	$0.6	$0.0	$0.0
Total												
Revenues	$362.1	$376.0	$403.2	$432.5	$1,573.7	$429.5	$433.1	$433.2	$458.0	$1,753.8	$1,974.1	$2,184.4
Yr/Yr Change	9.1%	12.5%	23.3%	26.0%	17.8%	18.6%	15.2%	7.4%	5.9%	11.4%	12.6%	10.7%
Operating Income (ex. charges)	$67.1	$69.0	$71.5	$74.1	$281.8	$78.5	$81.6	$81.8	$83.5	$325.4	$357.9	$435.3
Yr/Yr Change	24.0%	22.4%	25.4%	28.0%	25.0%	17.0%	18.2%	14.4%	12.7%	15.5%	10.0%	21.6%
Operating Margin	18.5%	18.4%	17.7%	17.1%	17.9%	18.3%	18.8%	18.9%	18.2%	18.6%	18.1%	19.9%

A Actual. E Salomon Brothers Inc estimate.
Source: Salomon Brothers Inc.

Salomon Brothers

Salomon Brothers Inc	
Atlanta	(404) 827-7600
Boston	(617) 346-9000
Chicago	(312) 876-8700
Los Angeles	(213) 253-2200
Mexico City*	(525) 281-2222
New York	(212) 783-7000
San Francisco	(415) 951-1777
Seoul*	822-3777-8004
Taiwan*	886-2-719-6647
AFFILIATES	
Bangkok Salomon Brothers Asia Pacific Ltd**	662-263-3800
Beijing Salomon Brothers China Limited	3610-505-5260
Frankfurt Salomon Brothers AG	49-69 2607 [illegible]
Hong Kong Salomon Brothers Hong Kong Limited Salomon Brothers Hong Kong Futures Limited	852-2501-2000
London Salomon Brothers International Limited (SFA Member) Salomon Brothers U.K. Limited (SFA Member) Salomon Brothers U.K. Equity Limited (SFA Member)	44-1-71-721-2000
Madrid Salomon Brothers International Limited*	34-1-391-5330
Melbourne Salomon Brothers Australia Limited*	61-3-9-663-34
Milan Salomon Brothers S.M S.p.A	39-2-777-35
Moscow AO Salomon Brothers	7-501-258-51
Osaka Salomon Brothers Asia Limited**	81-6-252-9[illegible]
Paris Salomon Brothers SA	33-1-40-55-6420
Singapore Salomon Brothers Singapore Pte Limited	65-432-1000
Sydney Salomon Brothers Australia Limited	61-2-232-4455
Taipei Salomon Brothers Taiwan Limited	886-2-719-6647
Tokyo Salomon Brothers Asia Limited Salomon Brothers AG*	81-3-5574-4111
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has showed no signs of slowing while average Caller ID penetration has surged almost 88% year-over-year, reaching 17% average penetration. The voice mail subscriber base has grown 20% year-over-year and has reached 11% total penetration. Call Waiting, one of the oldest and most widely subscribed vertical services, has an average penetration rate of approximately 50% which continues to grow each quarter at a moderate pace. We believe this strong growth in vertical services has not only been driven by the solid growth in primary residential lines, but also by the growing number of second and third lines being added by US households (i.e. customers continue to augment their home office lines (or additional lines) with call management features and voice mail boxes), which continue to grow the potential vertical service subscriber base.

Table 3a

"Vertical" Service Penetration
(% of in-region residential customers)

	Residential	Penetration Rates [1]						
	Lines	Add'l Line Penetration	Call Waiting	Voice Mail	Caller ID	New Services [illegible]*	New Services [illegible]*	In-Region LD
Ameritech	12,414	14%	43%	7%	23%	0%	0%	0%
Bell Atlantic	12,877	18%	43%	12%	17%	0%	0%	0%
BellSouth	15,038	11%	59%	12%	20%	0%	0%	0%
NYNEX	11484	13%	41%	9%	14%	0%	0%	0%
PacTel [2]	10,172	24%	76%	16%	1%	0%	0%	0%
SBC	8,779	13%	52%	9%	29%	0%	0%	0%
U S WEST	10,877	10%	38%	11%	18%	0%	0%	0%
Average		16%	50%	11%	17%	0%	0%	0%
GTE [3]	12,488	13%	38%	6%	5%	0%	0%	7%
SNET	2,146	–	–	–	–	–	–	29%

[1] Penetration of total residential lines in service. Does not adjust for capable/marketed residential lines. (Penetration rates for capable/marketed residential lines would be higher in most cases.)
[2] PAC Caller ID penetration is a Merrill Lynch estimate.
[3] Merrill Lynch estimated penetration of total markets served with long distance.
* New features and services, as yet uninvented, could boost future revenue growth at high incremental margins.

Table 3b

Additional Line Penetration

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ameritech	11%	11%	12%	12%	14%
Bell Atlantic	15%	16%	17%	18%	19%
BellSouth	9%	10%	10%	10%	11%
NYNEX [1]	11%	11%	12%	12%	13%
PacTel	22%	22%	23%	23%	24%
SBC	11%	11%	12%	12%	13%
U S WEST	8%	8%	9%	9%	10%
Average	12%	13%	13%	14%	16%
GTE	11%	11%	12%	12%	14%

[1] Merrill Lynch estimates.

Question 4. *If I could choose one company to provide my local and long distance telephone services, that company would be:* (multiple choice)

66	169	1	my current local phone company
67	170	1	my current long distance company
68	171	1	neither my current local nor long distance company

69	172	1	Question 5a. Have you switched long distance companies in the past year? 1 Yes 2 No
70	173	1	Question 5b. If so, who was your previous long distance company? 1 AT&T 2 MCI 3 Sprint 4 Other

Question 5c. And, what were your reason(s) for switching long distance companies? (multiple choice)

71	174	1	Friend(s)/family recommended
72	175	1	Wanted to try something different
73	176	1	Cash incentive to switch
74	177	1	Unsatisfied with previous long distance carrier
75	178	1	Lower rates/price
76	179	1	Better calling plans
77	180	1	Liked options and services offered
78	181	1	Other

Question 6. Which long distance company most recently contacted you about changing your long distance company? (multiple choice)

79	182	1	AT&T
80	183	1	MCI
81	184	1	Sprint
82	185	1	Other
83	186	1	Do not remember

Question 7. Some long distance companies give cash payments to households that switch to their long distance service. How much of a cash payment would you require to switch your long distance company?

84	187	5	Dollar amount
85	192	1	1 I would not switch 2 Cash would not be a factor
86	193	1	Question 8. Does your household have more than one telephone line (i.e. more than one telephone number)? 1 Yes 2 No
87	194	1	Question 9. Do you have an unlisted telephone number? 1 Yes 2 No

Question 10. Please indicate if you subscribe to any of the following on-line computer services: (multiple choice)

88	195	1	Prodigy
89	196	1	America On Line
90	197	1	CompuServe
91	198	1	Other on-line services
92	199	1	match indicator (if this = 1, customer was in Bill Harvest I)
93	200	10	Weight 1 national demographics; BH I match excluded
94	210	10	Weight 2 national demographics & access lines/local company; BH I match excluded
95	220	10	Weight 3 national demographics; all records
96	230	10	Weight 4 national demographics & access lines/local company; all records